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C O N F I D E N T I A L SECTION 01 OF 02 KIRKUK 000094

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TAGS: [ECON](#) [EPET](#) [PGOV](#) [ENRG](#) [PREL](#) [IZ](#) [NO](#)
SUBJECT: KRG OIL REP SAYS DOORS ARE OPEN TO FOREIGN INVESTMENT

REF: (A) KIRKUK 82; (B) KIRKUK 86

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CLASSIFIED BY: JBIGUS, PRT LEADER, REO Kirkuk, DoS.
REASON: 1.4 (b), (d)

¶1. (C) Summary: KRG Erbil Oil & Gas Establishment General Director Serwan Aziz said that the Iraqi National Government and the Kurdistan Regional Government in Erbil were handling new oil contracts in accordance with the new constitution, as if it were already in place. Aziz also said that when the two KRG governments merged, they would create a single regional Ministry of Oil in Erbil. Because the central government "had never undertaken mineral exploration in the Kurdistan Region," Aziz concluded the KRG could develop mineral resources without involvement by the central government. End Summary.

Establishing an Oil Ministry in the KRG

¶2. (SBU) KRG Erbil Oil & Gas Establishment (OGE) General Director Serwan Aziz met April 6 with USAID Representative and IPAO to discuss oil and mineral development in the Kurdistan Region. Aziz said that the merged KRG government would include a new KDP-headed Ministry of Oil in Erbil.

¶3. (SBU) Aziz said that, until the KRG created an oil ministry, OGE would manage petroleum and mineral development. Aziz said the Norwegian government helped set up OGE by providing training, management counseling, and capacity building. They were now negotiating an expanded relationship to include technical assistance.

The Constitution is a Done Deal

¶4. (SBU) Aziz said the Kurdistan National Assembly's creation of OGE enabled the KRG to develop its own resources in accordance with the Iraqi constitution. Aziz interpreted Article 110 of the constitution as giving the national Ministry of Oil administration rights only over wells already producing oil at the time of Iraq's liberation. Further, it said that the KRG administered any newly explored wells. The national and regional governments would "consult" in each case, however.

¶5. (C) Aziz said that the constitutional framework was easier to apply to the development of mineral resources. To date, the central government had not undertaken any mineral exploration. Therefore, he concluded the KRG could develop mineral resources without interference from or the need to coordinate with the

central government. When pressed for specifics, he declined to elaborate, though he did say they had already completed surveys in some areas.

The Baghdad - KRG Oil Relationship

¶16. (SBU) Aziz said coordination between the central and regional governments took place through a committee, which met to discuss pending Production Sharing Agreements (PSA's). He said that, as a member of the committee, the Ministry of Oil in Baghdad provided counsel on strategic issues related to PSA's, including OPEC policies and oil exportation, but lacked standing on project details. Aziz said there was no official liaison office between the federal and regional governments. (Comment: This statement may be true in an official sense; in reality, however, Iraq's President Talibani is deeply engaged in both Kurdish and national discussions involving a wide range of issues. End Comment)

Debate over Size, Scope of New Refineries

¶17. (C) Aziz said that the national Ministry of Oil had agreed to build four small refineries in the Kurdistan Region, however, the KRG was not satisfied with the scope of the projects. Each refinery (two units each in Erbil and Sulaymaniyah provinces) would only produce 20,000 bbl/d. Further, they will not have units to separate the sulfur from the crude oil and gas. Aziz said OGE was in negotiation with a company called Universal Oil Products (UOP) for refinery development. Aziz said the region needed a much larger refinery and a better plan was to build a 250,000 bbl/d refinery in Dahuk.

PSA's And Foreign Investment

¶18. (SBU) Aziz said OGE preferred using PSA's as the basis for partnering with foreign companies because the KRG was capital

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challenged, and furthermore, PSA's helped control corruption in his view. He said that based on geological surveys OGE had conducted, the area had been divided into several sectors for development. A separate PSA would be negotiated for each section.

¶19. (SBU) Aziz said that currently no Iraqi companies had the skilled workforce and experience to succeed in the international oil industry. He said OGE employed over 80 geologists and petroleum scientists, enough to survey and assess the resource capabilities of the region. The next stage of development, however, had to come from foreign investors and companies.

Comment:

¶10. (SBU) The KRGs in Erbil and Sulaymaniyah do not seem to be coordinating their plans for development of the Kurdistan Region with each other or, arguably, with Baghdad, though both are pushing for large refineries and massive foreign investment. End Comment.

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